

PUBLIC DISCLOSURE

March 12, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

COMMONWEALTH CO-OPERATIVE BANK

**TWO CENTER PLAZA
BOSTON, MA 02110**

**DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Commonwealth Co-operative Bank** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "SATISFACTORY"

The overall rating of Satisfactory is based on Commonwealth Co-operative Bank's strong loan to deposit ratio, as well as a willingness to lend to low and moderate- income individuals within its assessment area. Additionally, the bank has made the majority of HMDA reportable loans inside its assessment area.

The loan to deposit analysis indicated an average ratio of 86.5 percent over the prior eight quarters. The ratio has fluctuated slightly over this time period and currently stands at 84.6 percent. The ratio from December 31, 1998 compared well to other institutions of similar size and type in Boston. The net loan-to-deposit ratio is considered to exceed the standards of satisfactory performance.

An analysis of HMDA originations by income of borrowers indicated that 24.7 percent of the total HMDA originations inside the bank's assessment area, for the time period covered, were to low and moderate income individuals. This is considered to meet the standards for satisfactory performance.

Based on the 1997 and 1998 HMDA/LAR data, 66.4 percent of the bank's residential and home improvement loans were originated within its assessment area. In addition, 68.9 percent of the dollar amount was extended within the bank's assessment area. This level of lending within the assessment area is considered to meet the standards of satisfactory performance.

The bank's assessment area is made up of Middlesex County, Norfolk County, and Suffolk County. Based on the analysis of the geographic distribution of loans, the bank meets the standards of satisfactory performance.

Finally, there were no complaints received by the bank pertaining to its CRA performance and the fair lending examination revealed no evidence of discriminatory or illegal credit practices.

PERFORMANCE CONTEXT

Description of Institution

Commonwealth Co-operative Bank is a unique financial institution. The bank's original charter was to service Commonwealth of Massachusetts State Employees, which made it historically operate more like an industrial credit union with a captive membership. Despite opening up its services to the general public, a large number of the bank's customers are still employees of the Commonwealth of Massachusetts.

Commonwealth Co-operative Bank was established in 1927. As of December 31, 1998, the bank had total assets of \$46,266,000 of which 75.8 percent were in the form of loans. The bank is primarily a residential lender with 91.4 percent of the total portfolio made up of 1-4 family residential properties.

Refer to the following table for additional information on the breakdown of loans.

LOAN TYPE	AMOUNT 000's	PERCENT
1-to-4 Family Residential	\$ 32,087	91.4
Multi-Family	\$ 1,681	4.8
Consumer	\$ 1,217	3.5
Construction & Land Development	\$ 107	0.3
GROSS LOANS	\$ 35,092	100.0

Source: December 31, 1998 Call Report

Commonwealth Co-operative Bank operates one full service office, which is located at Two Center Plaza in downtown Boston. The bank does not operate its own Automated Teller Machines (ATMs), however; customers do have access to machines owned by other networks. Banking hours are Monday through Friday 9:00am to 3:00pm.

Commonwealth Co-operative Bank has direct competition within its immediate area from several local institutions, including the Commonwealth of Massachusetts State Employees Credit Union, TeleCom Co-operative Bank, Liberty Bank & Trust Company, Massachusetts Co-operative Bank, other state and nationally chartered financial institutions, as well as a number of regional and national mortgage companies, located throughout its assessment area.

The examiners used PCI Services, Inc., CRA Wiz, to generate aggregate HMDA reports when comparing Commonwealth Co-operative Bank to other HMDA lenders throughout its assessment area.

The bank was last examined for compliance with the Community Reinvestment Act by the Federal Deposit Insurance Corporation (FDIC) on December 3, 1997. That examination resulted in a Satisfactory rating. The bank was last examined by the Massachusetts

Division of Banks concurrently with the FDIC on October 20, 1995. Both examinations also resulted in a Satisfactory CRA rating.

Description of Assessment Area

Commonwealth Co-operative Bank has defined its assessment area as Middlesex County, Norfolk County, and Suffolk County. These counties are located in four Metropolitan Statistical Areas (MSAs). The majority of the cities and towns in the assessment area are located in the Boston MSA. The northern portion of Middlesex County is located in the Lowell MSA. The Fitchburg/Leominster and the Brockton MSAs each contain one census tract within the assessment area. The assessment area, at first appears somewhat large for an institution of this asset size. However, as stated earlier, the bank's history as a thrift institution for Commonwealth employees still has a significant effect on its clientele. The assessment area must serve the geographic base of Commonwealth employees.

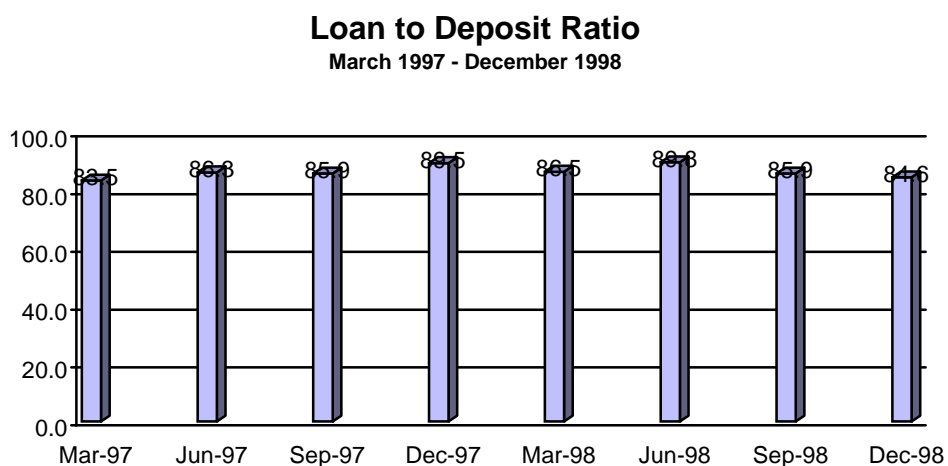
Assessment Area Demographics

The bank's assessment area encompasses 586 census tracts. Of these census tracts, 49 are considered low-income, 139 moderate-income, 248 middle-income, and 141 upper-income. The remaining 9 census tracts are designated as N/A.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

A comparative analysis of Commonwealth Co-operative Bank's quarterly net loan-to-deposit ratios for the period of March 31, 1997 through December 31, 1998 was conducted during this examination. Using the bank's quarterly Call Reports, the average net loan-to-deposit ratio for this period is 86.5 percent. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The following graph is provided for further analysis.



The bank's average loan to deposit ratio over the past eight quarters is 86.5 percent. As of December 31, 1998, the loan to deposit ratio stands at 84.6 percent. A comparison of the dollar amount of the bank's loans and deposits as of March 31, 1997 was compared to that of December 31, 1998. This comparison revealed that loans have increased by \$541,000 or 1.6 percent, while deposits for the same period increased by \$117,000 or 0.3 percent. However, from December 31, 1997 to December 31, 1998, net loans have decreased by 1.8 percent, while deposits for the same period increased 3.9 percent.

Commonwealth Co-operative Bank's average net loan-to-deposit ratio was compared to the ratios of three other area institutions. The ratios used for Commonwealth Co-operative Bank and the other area institutions were as of December 31, 1998. Refer to the following table for additional information.

COMPARATIVE NET LOAN-TO-DEPOSIT ANALYSIS

BANK	NLTD RATIO
<i>Commonwealth Co-operative Bank</i>	<i>84.6</i>
Massachusetts Co-operative Bank	97.1
TeleCom Co-operative Bank	65.8
Liberty Bank & Trust	57.5

Commonwealth Co-operative Bank's net loan-to-deposit ratio is higher than two out of the three other similarly situated institutions used for this comparison. However, the one institution higher is a high volume lender with a different business strategy. Based upon the information above and comparing Commonwealth Co-operative Bank's asset size to its competitors of similar asset size within Boston, the net loan-to-deposit ratio is considered to exceed the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

A review of Commonwealth Co-operative Bank's Loan Application Registers (LARs) for 1997 and 1998 were conducted during the examination. This information indicated the bank originated 134 HMDA reportable loans during this period. All of the loans were for purchased and refinanced properties, as well as home improvement loans and one multi-family loan. A total of 89 or 66.4 percent of all HMDA reportable loans were originated within the bank's assessment area.

An additional review of the total dollar amount of HMDA reportable originations for the same period was also reviewed. The bank granted a total of \$14,930,000 in HMDA reportable loans during this period. Of these loans, \$10,284,000 or 68.9 percent were originated within the bank's assessment area.

Refer to the following tables for additional information.

HMDA LOANS BY NUMBER OF ORIGINATIONS

	1997		1998		TOTALS	
LOCATION	#	%	#	%	#	%
Suffolk County	17	27.0	19	26.8	36	26.9
Norfolk County	15	23.8	12	16.9	27	20.1
Middlesex County	11	17.5	15	21.1	26	19.4
INSIDE ASSESSMENT AREA	43	68.3	46	64.8	89	66.4
OUTSIDE ASSESSMENT AREA	20	31.7	25	35.2	45	33.6
TOTALS	63	100.0	71	100.0	134	100.0

Source – 1997 and 1998 HMDA/LARs

HMDA LOANS BY DOLLAR AMOUNT OF ORIGINATIONS

	1997		1998		TOTALS	
LOCATION	\$ 000s	%	\$ 000s	%	\$ 000s	%
Suffolk County	1,769	29.0	2,253	25.5	4,022	26.9
Middlesex County	1,147	18.8	2,659	30.1	3,806	25.5
Norfolk County	1,259	20.6	1,197	13.6	2,456	16.5
INSIDE ASSESSMENT AREA	4,175	68.4	6,109	69.2	10,284	68.9
OUTSIDE ASSESSMENT AREA	1,931	31.6	2,715	30.8	4,646	31.1
TOTALS	6,106	100.0	8,824	100.0	14,930	100.0

Source - 1997 and 1998 HMDA/LARs

As the above tables illustrate, a majority of the number and dollar amount of mortgage related loans were granted within the bank's assessment area. The largest concentration of originated loans was within Suffolk County, which is the location of the bank's only office.

Based on the analysis of credit extended inside and outside of the assessment area, the bank is considered to meet the standards for satisfactory performance.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of HMDA reportable originations extended within the various income levels throughout the assessment area was conducted during the examination. Originations were categorized by the ratio of the applicant's reported income to the median family income of the Boston Metropolitan Statistical Area (MSA), the Brockton MSA, the Fitchburg/Leominster MSA, and the Lowell MSA. Refer to the following table for a breakdown of the estimated 1997 and 1998 HUD information.

MSA	1997	1998
Boston	\$59,600	\$60,000
Brockton	\$53,900	\$53,900
Fitchburg/Leominster	\$48,200	\$48,200
Lowell	\$59,100	\$59,200

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

Refer to the following table for information on the bank's distribution of credit among different income levels.

HMDA ORIGINATIONS BY INCOME OF BORROWER

% OF MEDIAN MSA INCOME	1997		1998		TOTAL	
	#	%	#	%	#	%
<50%	3	7.0	3	6.5	6	6.7
50% - 79%	11	25.6	5	10.9	16	18.0
80% - 119%	7	16.3	11	23.9	18	20.2
120% >	22	51.1	27	58.7	49	55.1
TOTAL	43	100.0	46	100.0	89	100.0

Source: 1997 and 1998 HMDA/LARs

As the above table indicates, the majority of the bank's lending within the assessment area during the examination period was to upper-income individuals. However, the bank did originate 24.7 percent of HMDA reportable loans to borrowers of low and moderate-income.

The following table shows the number and dollar volume of HMDA-reportable loans originated by the bank to low, moderate, middle and upper-income borrowers in comparison to the activity of all other HMDA-reporting lenders in the assessment area during 1997.

**Lending Within the Assessment Area to Borrowers of
Different Income Levels
Commonwealth Co-operative Bank Compared to
All Other HMDA-Reporting Lenders**

Borrower Income Level	Number of Loans				Dollars in Loans (000's)			
	Commonwealth Co-operative Bank		All Other Reporters		Commonwealth Co-operative Bank		All Other Reporters	
Low	3	7.0%	4,038	4.5%	\$240	5.7%	\$257,878	1.8%
Moderate	11	25.6%	13,486	15.0%	\$974	23.3%	\$1,229,005	8.7%
Middle	7	16.3%	20,803	23.2%	\$787	18.9%	\$2,492,931	17.7%
Upper	22	51.1%	36,112	40.2%	\$2,174	52.1%	\$7,313,737	51.9%
NA	0	0.0%	15,324	17.1%	\$0	0.0%	\$2,808,185	19.9%
Total	43	100.0%	89,763	100.0%	\$4,175	100.0%	\$14,101,736	100.0%

Source: HMDA Data for the period 1/1/97 to 12/31/97.

As shown in the preceding table, the percentage of Commonwealth Co-operative Bank's lending to low and moderate-income borrowers is higher than all other HMDA reporters throughout the assessment area. Consideration should also be given to the high number of originations in the NA category for aggregate data. If these loans were assigned to an income category, they could skew the results.

A review of the distribution of credit to borrowers of various incomes reflects a solid penetration among individuals of different income levels. Therefore, lending in the assessment area to borrowers of different income levels meets the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA reportable loan originations extended within the various census tracts contained in the bank's assessment area was conducted during the examination. The bank's assessment area is comprised of 586 census tracts, 49 of which are designated as low-income, 139 designated as moderate-income, 248 designated as middle-income, 141 designated as upper-income, and 9 designated as N/A.

The bank originated 89 HMDA reportable loans within its assessment area from January 1, 1997 through December 31, 1998. Of these 89 loan originations, 6.7 percent were granted in low-income census tracts and 18.0 percent were originated in moderate-income census tracts. Refer to the following table for additional information.

HMDA ORIGINATIONS BY CENSUS TRACT

CENSUS TRACT	1997		1998		TOTAL	
	#	%	#	%	#	%
LOW	4	9.3	2	4.4	6	6.7
MODERATE	6	14.0	10	21.7	16	18.0
MIDDLE	21	48.8	24	52.2	45	50.6
UPPER	12	27.9	10	21.7	22	24.7
TOTAL	43	100.0	46	100.0	89	100.0

Source: HMDA/LAR Data – 1997/1998

Aggregate data for all other lenders within the bank's assessment area for 1997 reveals that 1.5 percent of all originations within the assessment area were granted in low-income census tracts; 12.5 percent granted in moderate-income tracts; 49.0 percent granted in middle-income tracts; and 37.0 percent originated in upper-income census tracts. Commonwealth Co-operative Bank's lending performance for calendar year 1997, is higher than the aggregate's lending performance in low and moderate-income census tracts. However, this aggregate data is somewhat diluted since the assessment area is so large for an institution of this size.

Based on the analysis of the geographic distribution of loans, the bank meets the standards of satisfactory performance in generating originations from all segments of its assessment area.

5. REVIEW OF COMPLAINTS/FAIR LENDING

Commonwealth Co-operative Bank has not received any complaints that were related to its CRA performance since the previous examination. Commonwealth Co-operative Bank's record of implementing and developing fair lending policies is considered marginal, but overall meets the standards for satisfactory performance.

FAIR LENDING POLICIES AND PRACTICES

Detailed below is the bank's fair lending performance as it correlates to the guidelines established by Regulatory Bulletin 2.3-101, the Division of Bank's Fair Lending Policy.

STAFF TRAINING

The bank does not conduct any formal staff-training program designed to educate employees about fair lending laws and regulations.

STAFF COMPOSITION AND COMPENSATION

The bank has a staff of ten full and part-time employees, three of whom are minorities. In addition, the bank has employees that are fluent in Spanish and Vietnamese. The bank does not compensate any employees on a commission basis, thereby encouraging loans of all dollar amounts.

OUTREACH

The bank's outreach program remains limited, although a suggestion box is located in the bank's main lobby for its current customers to make recommendations.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

Commonwealth Co-operative Bank offers loans with up to 90 percent financing and no points. Management performs an annual review of its loan policy and credit products in order to determine whether the bank is offering competitive products and whether those products are responsive to the assessment area's credit needs. There appears to be little review of credit offerings to determine if credit needs are being met or underwriting standards to determine if any language could be construed as discriminatory.

MARKETING

Commonwealth Co-operative Bank has participated in several banking fairs over the past few months in order to increase awareness of the bank's products and services.

Most of the bank's customers are state employees and therefore, the bank traditionally relies on "word of mouth" in order to promote its credit products.

CREDIT EDUCATION

The bank has not sponsored or participated in any credit education seminars over the past two years.

COUNSELING

The bank refers all loan customers who are experiencing credit difficulties to the appropriate consumer credit counseling services available in the area. In addition, management is willing to discuss any difficulties a customer may have with their credit.

SECOND REVIEW PRACTICES

Commonwealth Co-operative Bank performs a second review in which board members review all denied loan applications. This is completed prior to the applicant receiving notification of adverse action.

INTERNAL CONTROL PROCEDURES

The bank's Home Mortgage Disclosure Act and Loan Application Register data is reviewed quarterly by management in order to ensure compliance with applicable consumer laws and regulations.

MINORITY APPLICATION FLOW

A review of HMDA reportable loan applications was conducted in order to determine the number of applications the bank received from minorities. From January 1, 1997, through December 31, 1998, the bank received 98 HMDA reportable loan applications from within its assessment area. During this period, 9 applications, or 9.2 percent, were received from minorities. Refer to the following table for further details.

APPLICATION FLOW

RACE	1997		1998		TOTAL	
	#	%	#	%	#	%
American Indian	0	0.0	0	0.0	0	0.0
Asian	4	8.5	0	0.0	4	4.1
Black	2	4.3	2	3.9	4	4.1
Hispanic	1	2.1	0	0.0	1	1.0
Other	0	0.0	0	0.0	0	0.0
TOTAL MINORITY	7	14.9	2	3.9	9	9.2
White	40	85.1	49	96.1	89	90.8
TOTAL	47	100.0	51	100.0	98	100.0

Source: 1997 and 1998 HMDA LARs.

Aggregate data for all other HMDA reporters within the assessment area for 1997 indicated that 10.6 percent of mortgage related loans were granted to minority individuals.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

COMMONWEALTH CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **March 12, 1999**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.